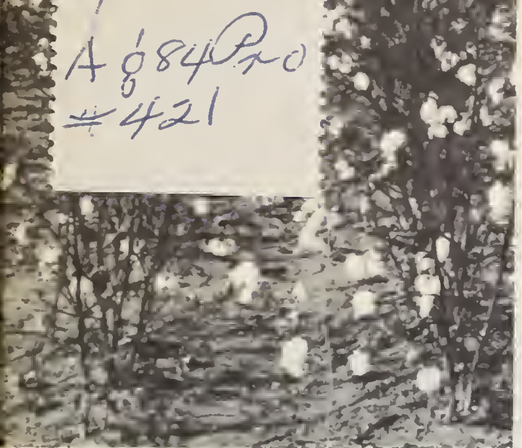


What

Federal
Crop
Insurance
Corporation

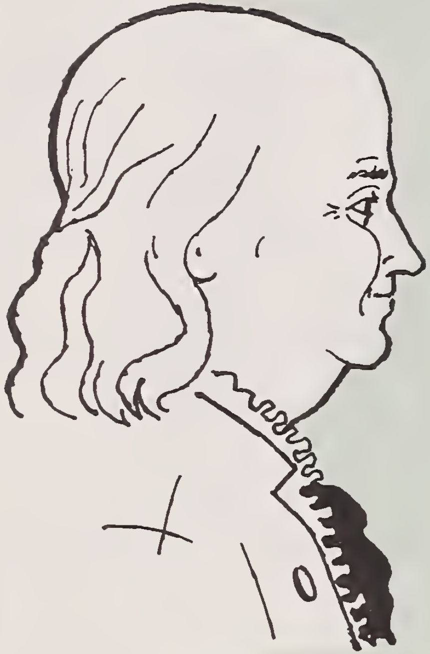
United States
Department
of
Agriculture

about

Federal crop insurance?

PA-421
August 1960

In 1788 Benjamin Franklin *wrote:*



"It must have been a terrible Tempest that devastated such an extent of country. I have sometimes thought that it might be well to establish an office of insurance for farms against the damage that may occur to them from storms, blight, insects, etc. A small sum paid by a number would repair such losses and prevent much poverty and distress."

the *risk* is great

A farmer risks both his money and a return for the hours he works on the production of his crops. There is also the risk of no return on the money invested in the land.

Many things beyond the farmer's control can destroy his crops. The many kinds of insurance available to protect against and share the burden of common catastrophic risks resulted in demand for such basic insurance for farm crops.

Increased Demand

Financial difficulties of farmers due to crop failures prompted several private companies to enter the field of insuring against crop disaster. These ventures were all of short duration and revealed that guaranteeing crop production is not only a very high-risk field of insurance but also one with many complications. There was increasing demand that Government provide such protection since it was not available from private sources. Congress preferred that private sources meet this need. However, insurance representatives advised there was little hope for this unless the Government obtained experience indicating that such insurance can be operated on a sound business basis.

Steady Progress

The Federal Crop Insurance Corporation began operation of all-risk crop insurance in 1939 following passage of legislation in 1938. Steady progress has been made in developing a sound, practical way for farmers to use the self-help method of insurance to stabilize their investments and their future against the full impact of crop disasters.

The Corporation's experience provides convincing proof that insuring growing crops subject to all the destructive forces of nature is a very high-risk insurance.

A NEW IDEA in Federal "All-Risk"

the guaranteed production plan

The technological revolution in agriculture has increased the loss as well as the production potential. Increased expenditures have become necessary in order to make money farming. This has made good management practices so important that just one wrong decision can have serious consequences both for the present and the future. Today's farmer must worry about far more than getting his seed back.

Guided by experience and the farmers it exists to service, the Corporation has developed a "guaranteed production plan" geared to farmers' financial and management problems of the present and the future.

Crop insurance was started to put a floor under the worst that can happen to crop capital—the source of farm profit. It now enables the farmer to fit his all-risk insurance to his individual needs. He selects the amount of indemnity he will be paid when a loss occurs as well as the premium he will pay for his protection.

Guarantees Vary

Production guarantees are established by the Corporation in bushels or pounds of good quality production. These guarantees differ by crops, counties, and areas within counties. No guarantees are established for some high-risk acreage. Obviously, the Corporation's underwriters must take both longtime production history and insurance risk into consideration. Legislation limits the maximum protection offered in an area to the cost of producing the crop in the area.

How the Plan Works

The plan can be summarized in these simple steps:

(1) It guarantees a specified amount of good quality production and pays an indemnity when production falls below this guarantee.

(2) The policyholder selects the dollars to be used in determining the amount of the indemnity check.

(3) The Corporation determines the percent production is below the guarantee which is the percent of loss.

(4) The dollars selected multiplied by the percent of loss gives the amount of the insurance payment.

(5) The quality adjustment feature involves a simple comparison of local value of poor quality production with the local price for the quality guaranteed.

Illustrating the operation of the plan with figures:

(1)	The Corporation's production guarantee	= 1,000
(2)	The policyholder's dollar selection	= $1,500
(3)	Actual production harvested	= 400
	Amount below guarantee (1,000 − 400)	= 600
	Percent of loss (600 ÷ 1,000)	= 60
(4)	Indemnity check (60% × $1,500 selected)	= $900

When production is below the quality guaranteed it is generally converted to the equivalent of the quality guarantee by relating its value to the local price for the quality of production guaranteed. However, quality protection for tobacco is provided on a "built-in" basis. The tobacco percent of loss is obtained by subtracting the dollar return from the sale of the tobacco from the dollar guarantee (pound guarantee × average market price) and dividing the difference (the amount below the guarantee) by the dollar guarantee.

Top Protection on Harvested Acreage

The guarantee for harvested acreage is higher than for unharvested acreage to reflect some difference in production costs. The contract provides specific payments for total losses. Some crops are subject to destruction after it is too late to replant the same crop but not too late for other crops. Provision is made for release of such acreage when requested for substitute planting with indemnity payments of as much as 50 percent of the dollar selection for a harvested crop loss. The policy is designed to let the insured make the decision regarding what is in his best interest when insured acreage has been destroyed or severely damaged.

Premium for Protection

The premium rate is the same for any of the several dollar choices available to the policyholder. The premium is determined by applying the rate to the dollar amount of insurance selected. Thus, while the rate is the same, the total premium increases as the dollars selected increase. In addition to basing his dollar selection on his individual needs, the wise policyholder also gives consideration to the premium as a part of his annual operating costs. A farmer should plan to carry all-risk crop insurance on a continuing basis just as he does other insurance.

crops insured

The Corporation is now offering insurance on 13 different crops. One or more crops are insured in about one-third of the Nation's agricultural counties.

All-risk insurance was started first on wheat in 1939. Both production practices and insurance problems differ by crops. However, the knowledge and experience gained on each crop insured has resulted in gradual expansion of insurance to the crops listed below. The first year of insurance is shown in parentheses:

Wheat	(39)	Citrus	(51)
Cotton	(42)	Soybean	(55)
Corn	(45)	Barley	(56)
Flax	(45)	Peach	(57)
Tobacco	(45)	Grain Sorghum	(59)
Bean	(48)	Oat	(59)
Combined Crop	(48)	Rice	(60)

Only a small number of counties are offering insurance on the latest crops for which insurance has been developed. This number will be expanded as experimental work and experience justify. The combined crop protection is an optional plan offered in some counties under which the guarantee for several crops is combined and no loss is payable unless the combined production from all the insured crops falls below the guarantee. This reduces the cost below what is required to insure each crop separately.

Interest of farmers in establishing an insurance program is one of the major factors considered when expanding operations to additional counties and crops. Consideration must also be given to maintaining a reasonable spread of the liability between crops and areas.

The long-range objective is to eventually make all-risk protection available to all major agricultural counties on those crops which contribute an important part of the farmer's income.

For specific information write to "State Director, Federal Crop Insurance," at the office serving the State shown on the inside back cover.

the "*all*" in all-risk

To deal with the big "IF" in crop production, the *all* in all-risk protection is essential. This fact is overlooked by many people. They tend to think only in terms of the usual and fail to recognize in their management plans the possibility of the unusual—the known and the unknown risks that can destroy their crops.

The broadly stated risks—adverse weather, insects, plant diseases, earthquake, fire, and wildlife—do not picture the full extent of the protection. The Corporation's 1959 Report to Congress lists 118 specific causes of damage to crops for which indemnities of nearly $450 million have been paid. Many of these were new loss experiences to the insureds when they happened to their crops.

Damage from a new plant disease, insect or unusual weather occurs for the first time almost annually in some area of the country. Both the experience of the all-risk insurance operation and the number of appeals to the Federal Government for disaster assistance each year attest to this fact.

The all-risk policy covers damage beyond the farmer's control. This does not include losses due to negligence or poor farming practices.

Day-by-Day Protection

The protection is also broad from a time standpoint. The policy protects every day from planting through harvest. Some crops are lost before they ever really start to grow, others are destroyed the day of harvest, and many are lost during the long period that lies between.

becoming a *policyholder*

You can't insure your house after a fire breaks out.

Crop insurance also operates with logical restrictions on acceptance of new applications. It must be operated soundly so that its policyholders have protection every year. When unusual risk conditions develop, sales are closed for that year and protection is limited to continuing policyholders and those who applied earlier.

The Application

An application designating the crop(s) and the dollars of insurance must be signed and accepted to become a policyholder. Any person with a share in an insurable crop can apply for insurance to cover his or her share(s), whether as landlord, tenant, or owner-operator. Partnership interests must be covered by a partnership contract. Joint applications can be made but apply only to acreage in which all joint applicants have an interest.

The Policy in Effect

The policy covers the insured's interest in all insurable acreage of the crop(s) planted in the county for which the application is filed. It insures only the policyholder's interest at planting time since to do otherwise would tend to encourage the sale of damaged acreage to persons with all-risk protection. For the same reason the Corporation cannot permit its policyholders to increase their reported acreage or interest after damage has occurred.

Automatic Protection

For the convenience of policyholders and economy of operations, annual filing of an application for all-risk protection is not required. Policies are issued on a continuing basis with an automatic renewal date for the next crop year. A policyholder cancels his protection by giving written notice.

mutual responsibilities

Teamwork is necessary between the policyholder and the company for proper functioning of insurance.

Safeguards must be established for the protection of all policyholders. When responsibilities are carried out in a timely, accurate manner, functioning of the all-risk protection is simple. It is an unfortunate fact that safeguards to catch those who aren't playing the game fairly sometimes catch others who are honest but negligent. When either party to a contract is negligent, it provides a fertile seed bed for controversy.

Report Acreage and Interest

The policy covers all insurable acreage in the county in which the policyholder has an interest. This acreage and interest must be reported to the Corporation annually by the policyholder to establish the amount of his guarantee and the premium for the protection. This report is required soon after planting the insured crop. Unreasonable delay in reporting may result in the insurable acreage being declared zero if it has been damaged. Sound insurance procedures require that liability and premium be established before the loss occurs. Most policyholders recognize that premiums are used to pay indemnities and laxness in establishing liability would be against their best interests.

Prompt Reporting

Prompt reporting of loss or substantial destruction is required so that loss adjustment can be performed while the needed evidence and information supporting the claim are available and can be verified. The Corporation cannot permit land to be put to another use before the loss inspection has been made. The policyholder is required to keep satisfactory records of all harvested production.

Deadline dates are set to allow a reasonable time for policyholder performance.

an insurance *bargain*

Everybody likes a bargain. This simply means that all of us like to be sure that we are getting full value for our money.

Federal All-Risk Crop Insurance is high-risk insurance with the differences in risk between counties and areas reflected by its premium rates. In addition, farmers who are fortunate and raise good crops have their actual cost reduced by discounts and income taxes.

All-Risk Crop Insurance certainly is a bargain from the standpoint of its broad protection—all unavoidable risks . . . the known and the unknown.

Insuring Experience

Crop insurance experience also reveals that for its policyholders crop insurance has been a real bargain. Total experience for the 1948–59 period shows that 97 cents of each $1.00 of premium was returned to policyholders through indemnity checks.

Premium Reductions

A policyholder can reduce his premium cost 5 percent by reporting his acreage soon after planting and paying his premium at that time.

If he has a good crop and pays income tax, his premium is an operating cost and is deducted from his gross returns like his other operating expenses. So the cost of his insurance actually is reduced by the percentage of income tax paid.

Good luck or experience will further reduce the cost of this broad protection under a graduated discount plan which gives a 5 percent discount following 3 years of insurance without a loss, 10 percent after 4, 15 percent after 5, 20 percent after 6 and 25 percent after 7 or more.

These are real "bargain" benefits.

straight *thinking*

Because crop disaster has not struck in the past does not mean that it will not in the future. It can happen anywhere.

Crop insurance is the only method presently available to provide all-risk security for money spent to produce. It has a double security feature by paying indemnities when crop disaster strikes and providing loan collateral for additional credit when needed. Through a collateral assignment the policyholder can give the banker or the credit agency assurance that if the crop fails there will be repayment through a crop insurance indemnity check. It has obtained credit for many farmers that without its security was not available.

The Chance To Try Again

Full recognition of the value of insurance requires that you think of it in terms of your position and circumstances when the indemnity would be paid . . . of what you would do with the indemnity check under these conditions. When loss occurs, this indemnity benefit usually has a very personal significance to the individual, the family and the future. It may mean the chance to try again . . . the saving of past profits . . . education for children . . . food . . . medical care . . . household needs . . . equipment . . . payment on debts . . . keeping other insurance in force . . . etc. Looking back, some farmers have said that they spent a lifetime trying to recover from the effects of a few crop failures.

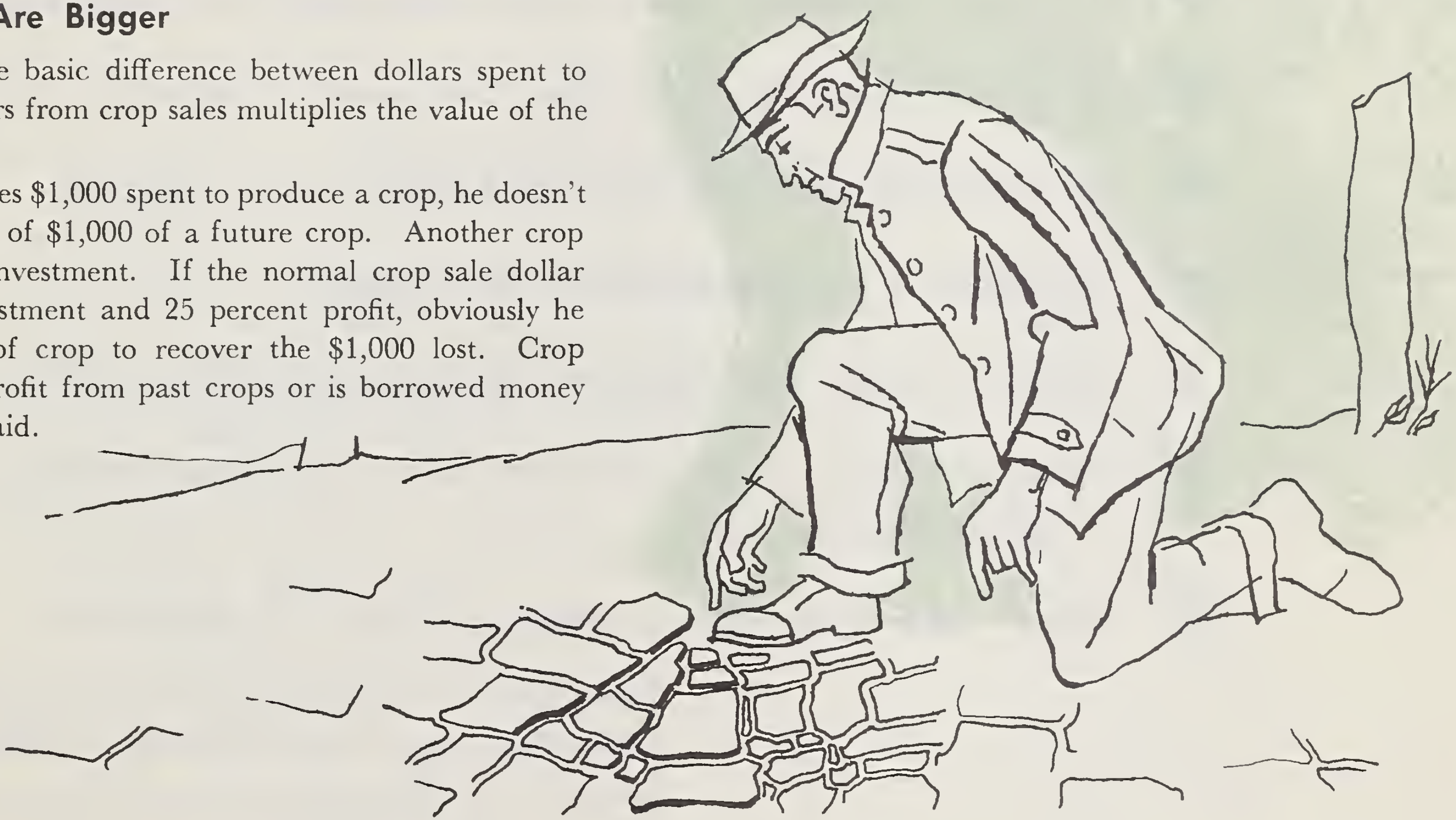
Wise planning recognizes, too, that financial situations change from other causes than crop failure. Importance of the indemnity check when the crop failure occurs may be far greater

than when the policy was taken out. Sickness, accidents, other losses, new responsibilities, new plans, and many other things can change the personal situation.

Some Dollars Are Bigger

Recognition of the basic difference between dollars spent to produce and dollars from crop sales multiplies the value of the protection.

When a farmer loses $1,000 spent to produce a crop, he doesn't get it back by sale of $1,000 of a future crop. Another crop requires another investment. If the normal crop sale dollar is 75 percent investment and 25 percent profit, obviously he must sell $4,000 of crop to recover the $1,000 lost. Crop capital is either profit from past crops or is borrowed money which must be repaid.



remember these insurance facts

- ✓ Insurance protects against what might and can happen.
- ✓ Insurance provides help when the need is greatest.
- ✓ Insurance spreads the cost of losses over a lifetime.
- ✓ The past is no guarantee of the future.
- ✓ Insurance uses the magic of averages for the benefit of millions.
- ✓ Think of crop insurance in terms of money spent during a lifetime of producing crops.
- ✓ Base your insurance understanding on facts—not assumptions.

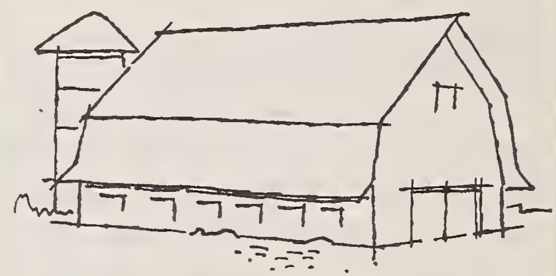
Thousands of farmers have been without all-risk protection when crop disaster struck because they based their decisions on inaccurate and erroneous information regarding its operations and benefits.

Direct Inquiries To:

federal crop insurance *state offices*

Address	States Served
Old Post Office Bldg., Room 301, Montgomery, Alabama	Alabama, Florida, Georgia
P. O. Box 429, Porterville, California	California
Room 308, New Custom House Bldg., Denver 2, Colorado	Colorado, Wyoming
Room 213, U.S. Post Office & Courthouse, Springfield, Illinois	Illinois
Room 205, Federal Office Bldg., West 5th & Court Streets, Des Moines, Iowa	Iowa
417 Humboldt, Manhattan, Kansas	Kansas
P. O. Box 3110, St. Paul 1, Minnesota	Minnesota, Wisconsin
Room 610, Milner Bldg., 200 So. Lamar Street, Jackson 1, Mississippi	Mississippi, Arkansas, Louisiana
605 S. Massachusetts Avenue, Sedalia, Missouri	Missouri
Box 519, Lewistown, Montana	Montana
Room 303, Post Office Bldg., Lincoln 8, Nebraska	Nebraska
3616 Hillsboro Street, Raleigh, North Carolina	North Carolina
325 deLendrecie Bldg., Fargo, North Dakota	North Dakota
Bryson Bldg., 700 Bryden Rd., Columbus 15, Ohio	Ohio, Indiana, Michigan
Agricultural Center Office Bldg., Stillwater, Oklahoma	Oklahoma
P. O. Box 1529, Columbia 1, South Carolina	South Carolina
P. O. Box 832, Huron, South Dakota	South Dakota
U.S. Courthouse, Room 510, Nashville 3, Tennessee	Tennessee, Kentucky
PMA Building, College Station, Texas	Texas, New Mexico
County Agriculture Bldg., Kenbridge, Virginia	Virginia, Connecticut, Maryland, Massachusetts, Pennsylvania
845 Bon Marche Bldg., Spokane 1, Washington	Washington, Idaho, Oregon, Utah

tomorrow's insurance *today!*



Federal "All-Risk" Crop Insurance

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